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Japan Unveils Assistance Plan For Middle East

In a nationally televised press conference August 29 Prime Minister Toshiki Kaifu unveiled a much-awaited package of monetary and nonmilitary support for multinational efforts aimed at resolving the crisis stemming from Iraq's invasion of Kuwait. Although these actions still fall short of what the United States believes Japan can -- and should -- do (see following article), Tokyo's response to the Middle East situation may represent a transformation in Japanese foreign policy -- its "heisei reformation" in Mr. Kaifu's words -- characterized by a more engaged diplomacy.

In announcing the six-point plan, the prime minister appeared acutely aware that the nearly month-long delay in deciding how Tokyo would assist the U.S.-led multinational operation in the Middle East was attracting critical attention in Washington. Japan had joined its Western allies August 5 in slapping economic sanctions on Iraq to protest Baghdad's invasion of Kuwait three days earlier. But as various nations committed military or financial support, political analysts in the United States, Japan and elsewhere began to criticize Tokyo for not moving quickly to assume more of the burden for defending its Middle East oil lifeline. The Japanese government blamed the delays on problems it was having in developing a response that would not exceed the constraints of its "peace constitution" (see JEI Report No. 34B, August 31, 1990).

Mr. Kaifu, however, also sensed that large numbers of Japanese would be uncomfortable with the nature and the timing of the August 29 assistance package. He reminded them, "If Japan's response is delayed and the world gets the

FY 1991 Budget Requests Set Record

Responding to a relaxation of fiscal austerity, Japanese government agencies have submitted FY 1991 general account budget requests totaling a record Y71.1 trillion ($474.1 billion at Y150=$1.00), a 7.4 percent gain over the money sought for the current fiscal year (see Table 1). Potentially sharp increases in nondiscretionary spending plus selective rises in discretionary outlays point to the biggest jump in initially planned expenditures since the early 1980s. That outcome is almost guaranteed even though most requests no doubt will be pared down during negotiations between the Ministry of Finance and other agencies on a draft budget, due in December. One major reason is because Tokyo has said it will increase funding for public works to follow through on its commitments in the Structural Impediments Initiative talks with the United States.

Table 1: Summary of FY 1990 and FY 1991 General Account Budget Requests

(in billions of yen and percentage change)

	FY 1990	FY 1991	Change
Discretionary Expenditures	Y35,373.1	Y36,942.7	4.4%
Debt Service	14,288.6	16,322.9	14.2
Local Government Transfers	15,275.1	16,550.2	8.3
Infrastructure Investment*	1,300.0	1,300.0	0.0
Total	66,236.8	71,115.8	7.4
Fiscal Investment and Loan Program	34,572.4	42,500.0	22.9

*Funded by the sale of government-held shares of Nippon Telegraph and Telephone Corp.

Source: Ministry of Finance

In line with the cabinet's earlier budget guidelines (see JEI Report No. 30B, August 3, 1990), discretionary spending requests are up 4.4 percent to Y36.9 trillion ($246.3 billion) (see Table 1). Highlights include requests for Y1.2 trillion ($8 billion) for "improving the quality of life;" the cabinet had recommended Y200 billion ($1.3 billion) for this purpose. Tokyo committed itself in the final SII report to spending about Y430 trillion ($2.9 trillion) over the next decade for public works and other projects aimed at raising the standard of living (see JEI Report No. 26B, July 6, 1990). To greater or lesser degrees the ministries have responded; only the Imperial Household submitted a lower budget request than last year (see Table 2). The Foreign Ministry requested Y455.3 billion ($3 billion) for foreign aid, a solid 9.7 percent gain. Included in this package is Y150 million ($1 million) to promote economic reform in the Soviet Union, an unprecedented request by MOFA. The defense spending proposal tops Y4.4 trillion ($29.3 billion), which translates into a 5.8 percent gain, the smallest since FY 1981. Yozo Ishikawa, head of the Japan Defense Agency, said the modest request reflected the "current world situation and the nation's financial situation."

Table 2: FY 1990 and FY 1991 Budget Requests by Agency

(in billions of yen and percentage change)

	FY 1990	FY 1991	Change
Imperial Household	Y6.5	Y5.9	-8.6%
Diet	92.0	94.1	2.3
Judiciary	257.4	261.3	1.5
Board of Audits	12.0	12.2	1.8
Cabinet	12.7	13.4	5.5
Prime Minister's Office	7,825.9	8,081.8	3.3
Defense Agency	4,159.3	4,402.3	5.8
Ministry of Justice	455.1	465.6	2.3
Ministry of Foreign Affairs	533.9	580.2	8.7
Ministry of Finance	1,421.5	1,450.5	2.0
Ministry of Education	4,798.8	4,944.2	3.0
Ministry of Health and Welfare	11,565.2	12,215.6	5.6
Ministry of Agriculture, Forestry and Fisheries	2,509.4	2,539.1	1.2
Ministry of International Trade and Industry	726.3	788.5	8.6
Ministry of Transportation	813.2	822.4	1.1
Ministry of Posts and Telecommunications	26.5	27.6	4.2
Ministry of Construction	3,761.6	3,885.1	3.3
Ministry of Home Affairs	68.2	68.3	0.1

Source: Ministry of Finance

Mr. Ishikawa's concern for the nation's finances seems curious given the Japanese economy's strong showing over the past several quarters and expectations of continued solid growth. His concern is less puzzling in view of an outstanding national debt expected to reach Y164 trillion ($1.1 trillion) by the end of March 1991 and rising Japanese interest rates. The Finance Ministry had projected earlier this year that debt service costs would rise only 5.7 percent in FY 1991 (see JEI Report No. 26A, July 6, 1990). Now financial planners have penciled in a whopping 14.2 percent jump for debt service in the initial-request budget. The discrepancy is blamed on the upward drift in interest rates even before the latest Bank of Japan discount rate hike (see preceding article). MOF estimates that even if rates remain at current levels, the government will pay an additional Y12 trillion ($80 billion) to float new bonds planned for FY 1991.

The other major nondiscretionary spending item -- transfers to local governments -- stems from a mandate that the central government return a fixed percentage of certain tax revenues to local administrations. The strong growth in tax receipts projected for FY 1991 will force Tokyo to allocate 8.3 percent more to this item. Interestingly, the requested general account budget still shows Y1.3 trillion ($8.7 billion) in public works spending financed through the sale of government-held shares of Nippon Telegraph and Telephone Corp., even though last year's auction of NTT stock was scrapped and this year's sale recently was canceled. If the Tokyo Stock Exchange remains depressed (and NTT shares remain well below anticipated levels), it is not clear whether MOF can rely on this "nondiscretionary" source of income in future years.

Initial requests for the Fiscal Investment and Loan Program, the capital budget, also show a sharp increase. Except for the Housing Loan Corp., every government organization that gets FILP money boosted its request for FY 1991. The upsurge reflects both Tokyo's SII commitment (a significant share of FILP monies fund public works and housing loans) and Tokyo's pledge to increase foreign aid. (Two of Japan's major foreign aid organizations, the Japan Development Bank and the Overseas Economic Cooperation Fund, receive FILP funding).

Although it appears that Tokyo has eased its austere fiscal stance to meet international commitments, the budget requests are only the second step in a lengthy process. The ruling Liberal Democratic Party still must strike a compromise with opposition parties on how to amend the controversial 3 percent general consumption tax. This issue delayed passage of the general account budget for the past two years and could do so again next year.

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.